

RD AN No. 4139 (1942-A)
February 1, 2006

TO: State Directors
Rural Development

ATTN: Community Programs Directors

FROM: Russell T. Davis (Signed by *Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Use of Community Facilities Funds for Buildings with Leased Space

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) is being issued to provide uniform and consistent Agency interpretation on issues regarding Community Facilities (CF) loans and grants for projects that lease space to ineligible organizations or purposes.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4031 (1942-A) dated December 16, 2004, which expired on December 31, 2005.

IMPLEMENTATION RESPONSIBILITIES:

We continue to receive a number of inquiries about financing office buildings primarily to serve State or Federal agencies with CF funds. CF funds may only be used for services customarily provided by a local unit of government. While a building used primarily by Federal and State agencies may well be considered a public service facility, we do not consider it an eligible facility for CF programs.

EXPIRATION DATE:
January 31, 2007

FILING INSTRUCTIONS:
Preceding RD Instruction 1942-A

We have also received inquiries from the field concerning the lease of a small portion of an eligible community facility to organizations involved in a commercial activity.

The Agency considers the construction of a building to house a county extension service or a building to be used primarily for leasing space to other Government agencies, such as field service centers, as an ineligible use of CF funds. The construction of a building for a commercial activity is also considered ineligible for CF funding.

The Agency recognizes that, in many parts of the country, it is customary for local governments to provide limited office space to other local, State, or Federal agencies. It is also customary for public bodies and nonprofits to lease small portions of their buildings to commercial entities in some rural areas.

Facilities will remain eligible for CF funding provided the space occupied by ineligible organizations or activities is insignificant. For purposes of uniform administration, we have determined that a facility with less than 25 percent of its floor space occupied by ineligible organizations or activities is insignificant. The ineligible organization and the ineligible commercial activity must be related to and enhance the primary purpose for which the facility is being established by our borrower.

If you have any questions concerning eligibility of CF projects, please contact Messrs. Chad Parker, Director, Direct Loan and Grant Division, or Glenn E. Walden, Director, Guaranteed Loan Division, Community Programs, (202) 720-1490, or Fax (202) 690-0471.